Government Payments by Program and State

Government payments of $7.3 billion in 1996 and $7.5 billion 1997 were significantly lower than the average for the first half of the 1990's. Total payments in both years were slightly higher than those of 1995 but 45 percent lower than the $13.4 billion in 1993 which was the highest level since 1988. Direct government payments were expected to begin declining with the 1996 Farm Act. Even though the payments in 1996 and later years reflect the production flexibility payments provided under the 1996 Act, adjustments for deficiency payments owed to farmers for some commodities in 1996 and repayments by farmers for overpayments under the previous farm program also are included in 1996 and 1997 payments.

Under the old farm program, deficiency payments due to producers were made in as many as three payments, in 2 calendar years. The first payment was based on an estimation of the final amount likely to be owed to the producer, using projected market prices over the relevant period; and subsequent payments were then the balance due once the actual market prices became known.

During the 1995/96 marketing year, commodity prices received by farmers tended to be higher than had been projected when determining initial deficiency payments for the 1995/96 crops. For many producers, this meant that the disbursement received as the first deficiency payment for the 1995 crops exceeded the amount they were due, once all the information necessary to complete the final determination became available. As a consequence, they were required to reimburse USDA; and these reimbursements were then available for disbursement under production flexibility contract payments.

After 1997, the influence of the deficiency repayment adjustments should be concluded and the payment totals will more closely follow the declining levels of production flexibility contract payments specified in the 1996 Farm Act. The payment totals will be constrained by the fixed funding set forth for production flexibility contracts in the 1996 Farm Act through the year 2002.

Innovative legislation was implemented in 1996

As a refresher, new legislation enacted effective for 1996 represented a significant departure from that which it replaced, mandating sweeping changes in the operational design of Federal farm programs for a period of 7 years. Under the new farm programs, government payments to farmers will decline over 7 years in both absolute terms and as a proportion of production income. Both the declining payments and diminishing role of the Government crystallized in the new legislation represent extensions of trends under which Government assistance as a share of production income was already in a decline.

The 1996 Farm Act, more formally known as The Federal Agriculture Improvement and Reform Act of 1996, signed in April1996, initiated a new Government farm policy for 1996 through 2002 that disconnects the link between production history and the level of Federal support payments. The legislation also severed the links between Government payments and the crops produced and commodity prices. During the 7-year period covered by the 1996 Act, payments determined during a one-time, sign-up window in 1996 are scheduled to decline.

The payments are a function of the farmer's established program crop acreage times the established program yield multiplied (per a formula) by a set payment rate. The crop acreage and program yields remain constant throughout the 7 years, but payment rates are scheduled to generally decline. Nonrecourse marketing loans administered by the Commodity Credit Corporation remain available for the contract crops, oilseeds, and extra long staple cotton. The loan rates are generally much lower than past support levels and marketing loans are available to producers. Consequently, farmers don't necessarily have to place the commodity under loan in order to receive the benefits for which they are eligible and the Government's potential financial exposure through loan defaults is reduced.

Restrictions: Farmers are not bound to plant any particular set of crops and have flexibility as to what they do plant, with some exceptions pertaining to fruits and vegetables. Two requirements that farmers must meet are to comply with established conservation measures and either buy crop insurance or sign a waiver to all Federal disaster assistance.

Exceptions: The legislation contains special language for peanuts and sugar that generally maintains the structure of those programs established under the previous legislation but at lower support levels, thereby reducing the Government's exposure. The dairy price support program will be phased out over 4 years and the dairy milk marketing orders are to be reduced by two-thirds in 3 years. Tobacco program provisions are covered under separate legislation and are not affected by the 1996 Farm Act.

Number of Farms and Net Cash Income by Sales Class

The number of farms decreased slightly to 2,057,910 in 1997, and the percent of farms in each major sales class changed somewhat. Almost three quarters of all U.S. farms have annual sales of less than $50,000, while approximately 1 percent of all farms have sales greater than $1 million. Farms with over $250,000 in sales account for less than 7 percent of all farms but dominate American agricultural output. These large farms sell 65 percent of the Nation's livestock and 61 percent of the crops. They have 61 percent of the gross cash income compared with 59 percent of the cash expenses. In 1997 they accounted for 67 percent of the Nation's net cash income. Approximately 35 percent of direct Government payments went to these farms.